

Message Text

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SUBJECT: US TRADE MISSION - TIMBER MACHINERY IN AUSTRALIA AND
NEW ZEALAND AND PAPUA NEW GUINEA, MARCH, 1979

REFS: A) SILLOWAY-MAYBARDUK LETTER OF JUNE 26, 1978,
B) STATE 184027

1. SUMMARY: DESPITE SURFACE APPEARANCES AS A NO-GROWTH
INDUSTRY, THE PNG TIMBER INDUSTRY IS BEGINNING TO UNDERGO
SIGNIFICANT STRUCTURAL CHANGE AND MAY BE ON THE VERGE OF
ANOTHER PERIOD OF MAJOR EXPANSION. A TRADE MISSION VISIT TO
PNG COULD RESULT IN MAJOR SALES OF LOGGING MACHINERY AND
FURNITURE MAKING EQUIPMENT. MARKETS ALSO EXIST FOR
MINATURE SAWMILLS, DRY KILNS, AND PLANERS.

2. PAPUA NEW GUINEA HAS THE POTENTIAL OF BEING ONE OF THE
GIANTS OF THE SOUTHEAST ASIAN TIMBER INDUSTRIES. IT IS
SECOND ONLY TO INDONESIA IN TOTAL FOREST AREA AND A CLOSE
THIRD (AFTER MALAYSIA) IN READILY HARVESTABLE ACREAGE.
AT PRESENT PERMITS HAVE BEEN ISSUED TO HARVEST UP TO 1 MILLION
HECTARES OF FOREST AREA AND AN ADDITIONAL 1.2 MILLION
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HECTARES OF TIMBER RIGHTS ARE AVAILABLE FOR LEASING BY
DEVELOPERS. ANOTHER 8 MILLION HECTARES IS CAPABLE OF
BEING LOGGED BUT TIMBER RIGHTS WOULD HAVE TO BE NEGOTIATED
WITH LOCAL OWNERS. PAPUA NEW GUINEA HAS A TOTAL WOOD
PROCESSING INDUSTRY OF 130 FACTORIES INCLUDING 90
SAWMILLS, ONE PLYWOOD MILL, THREE VENEER MILLS AND ONE
WOODCHIP MILL. THE INDUSTRY EMPLOYES 4,000 PEOPLE, PAYS

ABOUT \$7 MILLION PER YEAR IN WAGES, AND HAS A TOTAL INVESTMENT OF \$42 MILLION IN LAND, BUILDINGS AND PLANTS.

3. THE INDUSTRY CURRENTLY EARNS ABOUT US\$31 MILLION IN EXPORTS OR ABOUT 4 PERCENT OF TOTAL NATIONAL EXPORT EARNINGS. MARKETS FOR THESE PRODUCTS ARE IN JAPAN AND AUSTRALIA WHILE KOREA, TAIWAN, AND HOLLAND ARE BEGINNING TO BUY SOME TIMBER PRODUCTS. THE INDUSTRY ALSO PROVIDES AN ESTIMATED 60,000 CUBIC METERS OF SAWN TIMBER AND 3,600 CUBIC METERS OF PLYWOOD FOR LOCAL CONSUMPTION. THE VALUE OF THE LOCALLY CONSUMED TIMBER IS US\$24 MILLION. THE PNG FORESTRY INDUSTRY GREW RAPIDLY UNTIL ABOUT 1973-74 WHEN WORLD PRICES FELL. IN 1974-75 TWO VERY LARGE SAWMILLS STARTED OPERATION BUT DESPITE THIS, TOTAL PRODUCTION FELL DRAMATICALLY IN 1974 AND 1975. PRODUCTION PICKED UP IN 1976 BUT FELL AGAIN IN 1977. EXPORT FIGURES ARE GIVEN IN TABLE 1 BELOW.

TABLE 1

1974/1975/1976#/1977#

LOGS VOLUME M3 550000/288900/488900/412493

SAWN VOLUME M3 43100/23800/52533/55853

#1976 & 1977 FIGURES PROVISIONAL

4. INDUSTRY PROBLEMS

THE STAGNATION OF THE TIMBER INDUSTRY MAY BE ATTRIBUTED TO LOWER INTERNATIONAL TIMBER PRICES, THE HIGH COST OF UNCLASSIFIED

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PRODUCTION IN PNG, AND STRICT GOVERNMENT REGULATIONS. PAPUA NEW GUINEA FORESTS CONTAIN MANY DIFFERENT TYPES OF HARDWOODS - IN SOME CASES AS MANY AS 100 DIFFERENT VARIETIES IN A SINGLE SQUARE MILE. CORE ROT IS PREVALENT. MINIMUM WAGE LAWS AND LOW WORKER EDUCATION LEVELS HAVE COMBINED TO MAKE PNG A HIGH LABOR COST COUNTRY. AS A RESULT OF THESE CONDITIONS SAWMILLING A CUBIC YARD OF TIMBER COSTS \$85 AS COMPARED TO \$25 IN THE U.S. SINCE PNG GOVERNMENT REGULATIONS HAVE REQUIRED A QUICK TRANSITION FROM EXPORT OF LOGS TO EXPORT OF SAWN TIMBER, IT IS EASY TO COMPREHEND WHY THE TIMBER INDUSTRY HAS NOT PROSPERED.

5. FUTURE PROSPECTS

THE DEPUTY PRIME MINISTER AND MINISTER FOR PRIMARY INDUSTRY JULIUS CHAN HAS ANNOUNCED THAT THE GOVERNMENT WILL BE CHANGING THE REGULATIONS GOVERNING THE TIMBER INDUSTRY IN PAPUA NEW GUINEA. THE CHANGES WILL ENCOURAGE GREATER LOG EXPORTS AND WILL REQUIRE LESS CONSTRUCTION OF SOCIAL INFRA-STRUCTURE ON THE PART OF NEW INVESTORS. SOME TAX BREAKS WILL BE GIVEN TO THOSE COMPANIES ALREADY INVOLVED IN SAWMILLING. THOUGH ROUGHLY 1/2 DOZEN SAWMILLS

HAVE CLOSED DOWN IN THE PAST THREE YEARS, SEVERAL ARE NOW
IN VARIOUS STAGES OF BEING RE-OPENED UNDER NEW MANAGEMENT.
IN ADDITION, SERIOUS NEGOTIATIONS ARE UNDER WAY FOR MAJOR
FOREIGN INVESTMENT IN THE TIMBER INDUSTRY. THE MOST
IMMEDIATE IS THE PLAN OF HYUNDAI, THE KOREAN FIRM, TO BUILD
A MULTI- MILLION DOLLAR WOODCHIP MILL IN NEW BRITAIN.
OTHER PROJECTS UNDER SERIOUS NEGOTIATION INCLUDE A
\$2 MILLION LOGGING OPERATION IN MANUS, A \$2 1/2 MILLION
LOGGING OPERATION IN THE EASTERN HIGHLANDS AND A \$5-10
MILLION FORESTRY DEVELOPMENT PROJECT IN VANIMO NEAR THE
IRIAN JAYA BORDER. THE DEPARTMENT OF PRIMARY INDUSTRY IS
ESTIMATING THAT THE NEW REGULATIONS WILL ALLOW FOR A TRIPLING
OF LOG EXPORTS OVER THE NEXT THREE YEARS. THIS EXPANSION
WILL COME PARTIALLY THROUGH GREATER UTILIZATION OF
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EXISTING CAPACITY AND PARTIALLY OUT OF ADDITIONS OF NEW
CAPACITY.

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6. CHANGE IN INDUSTRY STRUCTURE
IF THE NEW REGULATIONS TAKE EFFECT AS EXPECTED, ONE SHOULD
SEE A GREAT INCREASE IN THE AMOUNT OF LOGGING. MANY
COMPANIES HAVE FOUND THEMSELVES IN A POSITION WHERE THEY
COULD SELL LOGS BUT NOT SAWN TIMBER. THE GOVERNMENT

REQUIREMENT TO KEEP A FIXED RATIO BETWEEN THE TWO LIMITED THE COMPANY'S LOG EXPORTS.

7. IN THE MEANTIME, MANY OF THE SAWMILLS ARE TURNING INWARD TO LOCAL MARKETS IN PNG. AT PRESENT MOST FURNITURE AND WOOD PRODUCTS ARE STILL IMPORTED DESPITE THE GREAT DEAL OF SURPLUS WOOD LEFT OVER FROM SAWMILLING OPERATIONS. LOCAL FIRMS ARE NOW BEGINNING TO BUILD FURNITURE, BOXES, FURNITURE PARTS, ETC. AND THIS INDUSTRY IS EXPECTED TO GROW IN THE NEXT FEW YEARS. THE GOVERNMENT OF PAPUA NEW GUINEA HAS RECENTLY LET A TENDER FOR A CONSULTING CONTRACT TO HELP DEVELOP A PLAN FOR SUCH AN INDUSTRY IN THE CENTRAL PROVINCE.

8. BEST PROSPECTS FOR EQUIPMENT
IMPORTS OF TIMBER RELATED TOOL MACHINERY INCLUDING HAND TOOLS BUT EXCLUDING BULLDOZERS, LOADERS, ETC., WERE UNCLASSIFIED

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US \$3.8 MILLION IN 1973-74, \$7.6 MILLION IN 1974-75 AND \$5.6 MILLION IN 1975-76. IMPORTS FROM THE UNITED STATES IN 1975-76 WERE \$530,000. MUCH OF THE EQUIPMENT IN PNG HAS BEEN BOUGHT IN PIECEMEAL FASHION - OFTEN FROM JAPAN - AND IS UNSUITED FOR PNG CONDITIONS. IN GENERAL, THE EQUIPMENT HAS PROVEN TO BE TOO LIGHT AND TO REQUIRE TOO SOPHISTICATED HANDLING AND MAINTENANCE. THE INDUSTRY IS BEGINNING TO LOOK ELSEWHERE FOR NEW SUPPLIERS AND EQUIPMENT AND IS CONCENTRATING ON AUSTRALIA, GERMANY, BRITAIN AND UNITED STATES. THE FEW PEOPLE WHO ARE FAMILIAR WITH U.S. EQUIPMENT BELIEVE THAT IS IS QUITE APPROPRIATE FOR PAPUA NEW GUINEA. IF THE U.S. CAN PROVE THE WORTH OF THIS EQUIPMENT IN THE EXISTING OPERATIONS, IT SHOULD BE ABLE TO GAIN A LARGE SHARE OF THE FUTURE MARKETS AS NEW INVESTORS TAKE OVER THE NEW UNDERDEVELOPED TIMBER AREAS.

9. THE CHANGING STRUCTURE OF THE TIMBER INDUSTRY SUGGESTS THAT U.S. SUPPLIERS SHOULD CONCENTRATE ON LOGGING AND FURNITURE MAKING EQUIPMENT. DISCUSSIONS WITH INDUSTRY EXPERTS AND CONSULTANTS INDICATE A REAL NEED FOR SELF-LOADING LOGGING TRUCKS, VENEER SLICING EQUIPMENT AND HANDLING EQUIPMENT OF ALL SORTS, PARTICULARLY TIMBER SORTING EQUIPMENT. THERE IS SOME INTEREST IN U.S. 4-WHEEL DRIVE VEHICLES. THIS IS SOMEWHAT SURPRISING SINCE JAPANESE 4-WHEEL DRIVE VEHICLES ARE ALREADY VERY COMMON IN PNG. BUT APPARENTLY THE INDUSTRY IS DISSATISFIED WITH THEM AND PERCEIVES THAT U.S. EQUIPMENT IS OF A SUPERIOR QUALITY.

10. ON THE FURNITURE MAKING SIDE, ALL TYPES OF EQUIPMENT

WOULD BE NEEDED AS THE INDUSTRY IS IN ITS INFANCY.
THERE IS A NEED FOR A SOURCE OF INEXPENSIVE INDUSTRIAL
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QUALITY SANDPAPER.

11. DESPITE THE SAWMILL INDUSTRY'S DIFFICULTIES, THERE ARE STILL SOME OPPORTUNITIES FOR U.S. FIRMS IN THE AREA AS WELL. VIRTUALLY EVERY INTERVIEWEE CONTACTED FOR THIS STUDY INDICATED THE NEED FOR PLANING EQUIPMENT. MOST SAWMILLS PRODUCE ONLY ROUGH CUTS FOR EXPORT AND NEED TO UPGRADE THEIR QUALITY. THERE IS ALSO A GREAT INTEREST IN DRY KILNS. AT PRESENT THERE IS ONLY ONE COMMERCIAL DRY KILN IN THE COUNTRY - MANUFACTURED BY MOORE-OREGON.

12. WHILE AT THE MOMENT THERE IS VERY LITTLE MARKET FOR LARGE SCALE SAWING EQUIPMENT, A MANUFACTURER WHO VISITED PNG AND OBTAINED A LOCAL AGENT WOULD BE IN A GOOD POSITION TO COMPETE FOR THE NEW MAJOR PROJECTS THAT MIGHT DEVELOP IN THE NEXT YEAR OR TWO. IN THE MEANTIME THERE IS A GREAT NEED FOR COMPLETE SMALL-SCALE SAWMILLS SUITABLE FOR SMALL ISOLATED COMMUNITIES.

13. THE EMBASSY HAS ALSO RECEIVED SEVERAL REQUESTS FOR INFORMATION ON STEAM POWERED ELECTRIC GENERATORS FUELED BY SAWMILL BY-PRODUCTS. FINALLY, WE UNDERSTAND THAT THE MAJOR PLYWOOD MANUFACTURER WILL NEED TO REPLACE MUCH OF HIS EQUIPMENT IN THE NEXT TWO YEARS.

14. VISIT OF TRADE MISSION
THE TIMBER INDUSTRY IS SCATTERED THROUGHOUT THE COUNTRY WITH THE MAJOR SAWMILLS LOCATED ON THE NORTHERN COAST AND THE NEW GUINEA ISLANDS. THE IDEAL STRATEGY WOULD BE FOR THE TRADE MISSION TO VISIT LAE, RABAU AND PORT MORESBY. IF THERE IS A LACK OF TIME, WE WOULD RECOMMEND PORT MORESBY AND LAE BECAUSE OF THEIR MORE CENTRAL LOCATIONS. THE PNG FOREST INDUSTRY COUNCIL WOULD BE MOST HAPPY TO HELP HOST A VISIT OF THE TRADE MISSION. THEY WOULD TRY TO SCHEDULE ONE OF THEIR MEETINGS AT THE TIME OF THE MISSION'S VISIT WHICH WOULD ALLOW THEM TO FINANCE
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THE TRIP TO PORT MORESBY OF SOME OF THE MORE OUTLYING SAWMILL OPERATORS. THE MANAGER OF THE FOREST INDUSTRY COUNCIL BELIEVES THAT MUCH OF THE TIMBER INDUSTRY IN PAPUA NEW GUINEA HAS BEEN A PRETTY AMATEUR OPERATION

UNTIL NOW AND WOULD WELCOME THE INTRODUCTION OF GREATER
U.S. EXPERTISE AND EQUIPMENT.

15. POST RECOMMENDATIONS

THOUGH THE PNG TIMBER INDUSTRY SEEMS ON THE SURFACE TO BE
STAGNANT, THE REALITIES APPEAR TO BE QUITE DIFFERENT. THE
INDUSTRY'S FUTURE PROSPECTS FOR GROWTH PLUS ITS CHANGING
STRUCTURE COULD LEAD TO SIGNIFICANT SALES OPPORTUNITIES
FOR U.S. FIRMS. THE POST STRONGLY SUPPORTS THE VISIT OF
THE TIMBER MACHINERY MISSION TO PNG.
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